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C O N F I D E N T I A L SECTION 01 OF 02 MUSCAT 000378

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STATE FOR NEA/ARP, EEB/TRA/AN, EEB/CBA
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COMMERCE FOR COBERG

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TAGS: [EAIR](#) [EINV](#) [ETRD](#) [PREL](#) [MU](#)
SUBJECT: OMAN AIR RAMPS UP FOR EXPANSION

REF: MUSCAT 132

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b, d)

Summary

¶1. (C) Officials in the government and the airline industry confirmed press reports that Oman would draw down its stake in Gulf Air to focus on developing its own carrier, Oman Air, with the primary purpose of bringing tourists to the Sultanate. Oman Air faces the near-term challenge of leasing planes and providing crews to cover some of Gulf Air's soon-to-be-vacated long-haul routes from Muscat. It plans to purchase Airbus widebody aircraft for delivery beginning in ¶2009. End Summary.

Oman to Reduce Gulf Air Stake

¶2. (C) In an April 14 meeting with the Ambassador, Minister Responsible for Foreign Affairs Yusuf bin Alawi confirmed Bahraini press reports that the Omani government would reduce its stake in Gulf Air from 50% to 20% in the near term. Bin Alawi commented that differing strategic philosophies between the Omani and Bahraini governments over the direction of the carrier precipitated the Sultanate's decision to reduce its investment in Gulf Air. He noted that for Oman, bringing tourists into the country was more important than supporting a hub and spoke route structure that Gulf Air currently uses. For this reason, according to bin Alawi, the government would concentrate on building up Oman Air, its national carrier.

Oman Air's Expansion

¶3. (C) In a separate April 14 meeting with Econoff, Alan Arch (protect), Oman Air's new Commercial Director, acknowledged that Gulf Air, by grounding its Boeing 767 fleet, would have a substantial impact on commercial operations at Muscat's Seeb International Airport, where most of Gulf Air's B767s are based. He noted that of Gulf Air's current 155 daily departures from Muscat, 54 would be eliminated by the summer, including direct service to Jakarta, Kuala Lumpur, and Saudi Arabia.

¶4. (C) In response to this reduction in flights, Arch stated that Oman Air was attempting to wet-lease widebody aircraft to service routes soon to be vacated by Gulf Air. He

commented that over the longer term, the airline would eventually replace Gulf Air on all long-distance routes from Muscat currently served by the incumbent, including those to London Heathrow, Frankfurt, Paris, Bangkok, Kuala Lumpur, and Jakarta. Oman Air would also continue to expand its service to regional destinations, including secondary airports in India. Arch pointed out that the airline's eventual size would be modest, and that it would not try to replicate Emirates, Etihad, or Qatar Airways in serving "far-flung" destinations such as New York, Sao Paulo, or points in Australia.

No Planes to Sell

5.(C) Following the February decision by its shareholders to allow the Omani government to raise its stake in the carrier to 80% (reftel), Oman Air signed a letter of intent to purchase five Airbus 330 aircraft for delivery beginning in 2009. Arch remarked that the preference of the company was to buy long-haul Boeing aircraft to complement its current fleet of B737-700 and 800 series aircraft. However, Arch said that the airline did not want to buy the B777, as it was too large for the Omani market, nor the dated B767. Faced with a delivery date of 2012 for the new B787, Arch said that in the end, the Boeing representative "had no planes to sell us." Arch confirmed that Oman Air's senior management was content to operate a mixed fleet of Boeings and Airbuses, and that the airline would continue to acquire B737s for its short-haul operations.

Comment

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16. (C) The decision by the Omani government to beef up its national carrier will serve the dual purpose of rationalizing the scope of viable air operations from Muscat, while cutting the Sultanate's exposure to money-losing Gulf Air in the face of intense competition from better equipped and financed GCC competitors. How the two governments will divide some of Gulf Air's assets, including coveted landing rights at London Heathrow and seat allocations from Oman to India, which are currently limited to 10,000 per week, is unclear, as Bahraini and Omani officials have not yet met to resolve the issue.
End comment.
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